

E-002/C-92-899 ORDER FINDING CONTRACT PRICE TERMS APPROPRIATE

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm  
Tom Burton  
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Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner

In the Matter of the Complaint of LS Power  
Corporation against Northern States Power  
Company

ISSUE DATE: February 16, 1995

DOCKET NO. E-002/C-92-899

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TERMS APPROPRIATE

**PROCEDURAL HISTORY**

On August 7, 1992, LS Power Corporation (LS Power) filed a complaint against Northern States Power Company (NSP or the Company). The complaint alleged that NSP was refusing to negotiate in good faith or to enter into a contract for the purchase of power from LS Power's proposed generation facility in Cottage Grove, Minnesota.

On June 28, 1994, following a directive from the Commission to negotiate with LS Power and other interested developers, NSP filed a power purchase agreement with LS Power. The contract provided for NSP's purchase of LS Power's net energy and committed capacity over a 30-year term.

On December 2, 1994, the Commission issued its ORDER APPROVING AGREEMENT RESOLVING COMPLAINT AND ESTABLISHING AN INVESTIGATION INTO THE REASONABLENESS OF PAYMENTS UNDER THE AGREEMENT. In that Order the Commission found that the contract between LS Power and NSP satisfactorily resolved LS Power's complaint. Although the complaint was resolved, the Commission found that a further finding regarding the merits of the contract was appropriate. For this reason, the Commission directed the Department of Public Service (the Department) to investigate NSP's selection of LS Power as a capacity source and the resulting payment terms under the NSP/LS Power contract.

On December 12, 1994, the Department filed its report and investigation.

On January 11, 1995, replies were filed by LSP-Cottage Grove, L.P., and by NSP.

On January 31, 1995, the matter came before the Commission for consideration.

**FINDINGS AND CONCLUSIONS**

**I. RESULTS OF THE DEPARTMENT INVESTIGATION**

The Department compared LS Power's initial proposal for the sale of power with initial proposals of Genoa Ventura Indexed natural gas and Genoa Market Indexed natural gas. The Department also reviewed NSP's avoided costs for intermediate capacity. The Department concluded that LS Power's initial proposal was more favorably priced than the alternatives and

did not contain other undesirable features.

The Department next determined that the present value of LS Power's final proposal is below NSP's avoided costs for intermediate power capacity.

Based upon its analysis, the Department concluded that NSP made the appropriate choice in selecting LS Power as the sole provider of NSP's intermediate capacity needs for the near future.

The Department also reviewed the payment terms under the contract and NSP's calculation of the present value of revenue requirements based upon the contract terms and present value of revenue requirements under NSP's avoided costs. The Department concluded that the contract payment terms result in a lower present value of revenue requirements than the present value of revenue requirements under NSP's avoided costs. Based upon this comparison, the Department concluded that the payment terms are reasonable.

In its reply, LSP-Cottage Grove asked the Commission to adopt the Department's conclusions and to approve the proposed LS Power/NSP power purchase agreement.

NSP agreed with the Department's conclusions.

## **II. COMMISSION ACTION**

The Department's investigation has shown that NSP properly chose LS Power over available alternatives for its purchase of intermediate power capacity. No party is currently disputing NSP's choice of LS Power. The Commission finds that NSP's choice of LS Power is reasonable and appropriate.

The Department's investigation has also shown that the terms of the NSP/LSP contract are reasonable, based upon a comparison of NSP's revenue requirements under the contract with its revenue requirements under its avoided costs. The Commission therefore finds that the contract price terms are appropriate, because the amounts to be paid to LS Power for electric power and electric energy reasonably represent NSP's avoided capacity and energy costs.

### **ORDER**

1. The Commission finds that the NSP/LS Power contract price terms are appropriate, because the amounts to be paid to LS Power for electric power and electric energy reasonably represent NSP's avoided capacity and energy costs.
2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

(S E A L)